

# IndusInd Bank

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	IIB IN
Equity Shares (m)	757
M.Cap.(INRb)/(USD\$)	855.1 / 10.4
52-Week Range (INR)	1275 / 764
1, 6, 12 Rel. Per (%)	4/-4/11
12M Avg Val (INR M)	3968

## Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
NII	175.9	209.6	255.7
OP	144.2	171.3	208.7
NP	74.4	94.9	120.6
NIM (%)	4.1	4.2	4.4
EPS (INR)	96.0	122.3	155.4
EPS Gr. (%)	54.7	27.4	27.1
BV/Sh. (INR)	707	813	953
ABV/Sh. (INR)	691	796	935

## Ratios

RoE (%)	14.5	16.1	17.6
RoA (%)	1.7	1.9	2.1

## Valuations

P/E (X)	11.5	9.0	7.1
P/BV (X)	1.6	1.4	1.2
P/ABV (X)	1.6	1.4	1.2

## Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	15.2	15.2	15.2
DII	24.8	22.7	20.1
FII	46.9	49.7	50.7
Others	13.2	12.5	14.0

FII Includes depository receipts

**CMP: INR1,102 TP: INR1,450 (+32%) Buy**

## Earnings outlook robust; business growth steady

### Restructured portfolio dips 41bp QoQ to 0.8%; MFI 30+ DPD declines to 1.1%

- IndusInd Bank (IIB) reported an in-line 4QFY23 performance with PAT at INR20.4b (up 46% YoY) and steady operating performance across all metrics.
- Loan growth was healthy at 21% YoY with traction in both Corporate and Consumer Finance books. Within consumer, growth was broad based barring 2Ws and LAP. MFI loans reported a healthy sequential pick up.
- Fresh slippages increased slightly to INR16b (2.4% annualized) on residual cleansing in the MFI book and one technical slippage in the corporate book. However, GNPA/NNPA ratios improved 8bp/3bp QoQ to 1.98%/0.59%. Restructured book declined to 0.8% in 4QFY23 from 1.25% in 3Q.
- Management suggested for 18-23% loan growth under Planning Cycle 6 (PC-6), while continued moderation in credit cost is expected to aid RoA expansion. We estimate IIB to deliver ~27% earnings CAGR over FY23-25, while its RoA/RoE would expand to 2.1%/17.6%. **We reiterate our BUY rating with an unchanged TP of INR1,450 (premised on 1.7x Sep'24E ABV).**

### NIM expands slightly to 4.28%; retail deposit mix improves to 43%

- IIB reported 4QFY23 PAT of INR20.4b (up 46% YoY; in line), aided by steady operating performance. For FY23, PAT stood at INR74.4b (up 55% YoY).
- NII rose 17% YoY to INR46.7b (in line), while 'other income' grew 13% YoY, fueled by strong traction in fee income, which rose 27% YoY. NIM improved marginally by 1bp QoQ to 4.28%, supported by a 32bp rise in corporate lending yields. In FY23, NII was up 17% YoY to INR175.9b.
- Operating expenses rose 22% YoY to INR30.7b. C/I ratio increased 100bp QoQ to 44.9%. PPOp grew 11% YoY in 4QFY23 to INR37.6b, while Core PPOp saw a higher growth of 18% YoY. In FY23, PPOp rose 11% YoY to INR144.2b.
- On the business front, loans grew 6.3% QoQ (up 21.3% YoY), led by both Consumer Finance (up 6.9% QoQ) and Corporate Book (up 5.6% QoQ). In the Consumer business, growth picked up in the Vehicle segment with disbursements of more than INR125b in 4QFY23. Utility vehicle and credit card registered healthy growth momentum at 9% QoQ each. Retail-to-Wholesale mix stood at 54:46. Deposits jumped 15% YoY with CASA mix at 40% and Retail deposit mix at 43% as per LCR.
- Fresh slippages inched up to INR16.0b in 4QFY23 (2.4% annualized). Nevertheless, GNPA/NNPA ratio improved 8bp/3bp QoQ to 1.98%/0.59% aided by higher recoveries and upgrades. PCR was stable QoQ at 70.6%. The bank held contingent provisions of INR19b (0.7% of loans). Restructured book moderated to 0.8% during the quarter v/s 1.25% in 3QFY23.

## Highlights from the management commentary

- C/I ratio is likely to remain elevated at ~45% for the next few quarters that will eventually moderate to 41-42% as efficiency kicks in.

- The 30+ PAR book stood at 1.2% of total loans v/s 2.1% QoQ. Stress within the MFI business, including the restructuring book, is now behind.
- Credit cost is expected to be ~110-130bp over FY23-26.
- **PC-6 guidance:** Loan growth to be ~18-23% with retail loan mix at 55%. Branch network is likely to expand to ~3,250-3,750 by FY26E v/s 2,606 in FY23. Mix of retail deposits is likely to be ~45-50% by FY26E v/s 43% in FY23. Margin is likely to be in the range of 4.25-4.35% over FY23-26E.
- Overall, the bank's endeavor is to deliver an RoA of ~1.9-2.2% during FY23-26E.

### Valuation and view

IIB's operating performance remains on track, led by steady NII growth and controlled provisions. Asset quality remains steady, even as slippages increased QoQ. Overall, the outlook for credit cost remains controlled. Management is guiding for continued momentum in loan growth with 18-23% improvement over FY23-26E. Healthy provisioning in the MFI portfolio and contingent provisioning buffer of 0.7% of loans will enable a steep decline in credit cost, thus driving recovery in earnings. We estimate PAT to report 27% CAGR over FY23-25, leading to a 17.6% RoE in FY25. **We reiterate our BUY rating with an unchanged TP of INR1,450 (premised on 1.7x Sep'24E ABV).**

### Quarterly performance

(INR b)

	FY22				FY23				FY22	FY23	FY23E V/S our	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	Est.
<b>Net Interest Income</b>	<b>35.6</b>	<b>36.6</b>	<b>37.9</b>	<b>39.9</b>	<b>41.3</b>	<b>43.0</b>	<b>45.0</b>	<b>46.7</b>	<b>150.0</b>	<b>175.9</b>	<b>47.5</b>	<b>-2%</b>
% Change (YoY)	7.7	11.6	11.4	12.7	15.8	17.6	18.5	17.2	10.9	17.3	19.2	
Other Income	17.2	18.4	18.8	19.0	19.3	20.1	20.8	21.5	73.4	81.7	21.7	-1%
<b>Total Income</b>	<b>52.9</b>	<b>55.0</b>	<b>56.7</b>	<b>58.9</b>	<b>60.6</b>	<b>63.1</b>	<b>65.7</b>	<b>68.2</b>	<b>223.5</b>	<b>257.6</b>	<b>69.2</b>	<b>-1%</b>
Operating Expenses	21.7	22.8	23.6	25.1	26.3	27.7	28.9	30.7	93.1	113.5	30.7	0%
<b>Operating Profit</b>	<b>31.2</b>	<b>32.2</b>	<b>33.1</b>	<b>33.8</b>	<b>34.3</b>	<b>35.4</b>	<b>36.9</b>	<b>37.6</b>	<b>130.3</b>	<b>144.2</b>	<b>38.5</b>	<b>-2%</b>
% Change (YoY)	6.6	13.0	11.8	8.0	9.9	10.0	11.3	11.2	9.8	10.6	13.9	
Provisions	17.8	17.1	16.5	14.6	12.5	11.4	10.6	10.3	66.0	44.9	10.1	2%
<b>Profit before Tax</b>	<b>13.4</b>	<b>15.2</b>	<b>16.6</b>	<b>19.2</b>	<b>21.8</b>	<b>24.0</b>	<b>26.2</b>	<b>27.3</b>	<b>64.3</b>	<b>99.3</b>	<b>28.4</b>	<b>-4%</b>
Tax	3.3	3.7	4.2	5.2	5.5	6.0	6.6	6.8	16.3	24.9	7.3	-6%
<b>Net Profit</b>	<b>10.2</b>	<b>11.5</b>	<b>12.4</b>	<b>14.0</b>	<b>16.3</b>	<b>18.1</b>	<b>19.6</b>	<b>20.4</b>	<b>48.0</b>	<b>74.4</b>	<b>21.1</b>	<b>-3%</b>
% Change (YoY)	99.1	72.9	49.5	51.2	60.5	57.4	58.2	45.9	64.0	54.9	50.7	
<b>Operating Parameters</b>												
Deposit (INR b)	2,672	2,753	2,845	2,933	3,031	3,155	3,253	3,361	2,933	3,361	3,359	0%
Loan (INR b)	2,107	2,208	2,286	2,391	2,480	2,601	2,728	2,899	2,391	2,899	2,869	1%
Deposit Growth (%)	26.5	20.8	19.0	14.6	13.4	14.6	14.3	14.6	14.6	14.6	14.5	8
Loan Growth (%)	6.4	9.7	10.4	12.4	17.7	17.8	19.3	21.3	12.4	21.3	20.0	128
<b>Asset Quality</b>												
Gross NPA (%)	2.9	2.8	2.5	2.3	2.4	2.1	2.1	2.0	2.3	2.0	1.9	4
Net NPA (%)	0.8	0.8	0.7	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6	1
PCR (%)	71.6	71.6	71.7	72.3	72.0	71.5	70.6	70.6	72.3	70.6	70.7	-16

## Exhibit 1: Quarterly snapshot

INR b	FY21				FY22				FY23				Variation (%)	
Profit and Loss	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	YoY	QoQ
<b>Net Interest Income</b>	<b>33.1</b>	<b>32.8</b>	<b>34.1</b>	<b>35.3</b>	<b>35.6</b>	<b>36.6</b>	<b>37.9</b>	<b>39.9</b>	<b>41.3</b>	<b>43.0</b>	<b>45.0</b>	<b>46.7</b>	<b>17</b>	<b>4</b>
Other Income	15.2	15.5	16.5	17.8	17.2	18.4	18.8	19.0	19.3	20.1	20.8	21.5	13	4
Trading profits	8.4	4.9	2.6	2.7	5.1	3.4	3.6	2.6	1.5	1.4	1.4	0.7	-74	-51
Others	6.8	10.6	13.9	15.1	12.1	15.1	15.2	16.4	17.9	18.7	19.4	20.9	27	8
<b>Total Income</b>	<b>48.3</b>	<b>48.3</b>	<b>50.5</b>	<b>53.1</b>	<b>52.9</b>	<b>55.0</b>	<b>56.7</b>	<b>58.9</b>	<b>60.6</b>	<b>63.1</b>	<b>65.7</b>	<b>68.2</b>	<b>16</b>	<b>4</b>
Operating Expenses	19.0	19.8	20.9	21.9	21.7	22.8	23.6	25.1	26.3	27.7	28.9	30.7	22	6
Employee	7.4	7.2	7.4	8.3	8.4	8.5	8.7	9.2	9.3	10.1	10.9	11.5	26	6
Others	11.6	12.6	13.4	13.6	13.2	14.3	14.9	15.9	17.0	17.6	18.0	19.1	20	6
<b>Operating Profits</b>	<b>29.3</b>	<b>28.5</b>	<b>29.6</b>	<b>31.3</b>	<b>31.2</b>	<b>32.2</b>	<b>33.1</b>	<b>33.8</b>	<b>34.3</b>	<b>35.4</b>	<b>36.9</b>	<b>37.6</b>	<b>11</b>	<b>2</b>
<b>Core Operating Profits</b>	<b>20.9</b>	<b>23.6</b>	<b>27.1</b>	<b>28.6</b>	<b>26.1</b>	<b>28.9</b>	<b>29.5</b>	<b>31.2</b>	<b>32.8</b>	<b>34.1</b>	<b>35.5</b>	<b>36.9</b>	<b>18</b>	<b>4</b>
Provisions	22.6	19.6	18.5	18.7	17.8	17.1	16.5	14.6	12.5	11.4	10.6	10.3	-30	-3
<b>PBT</b>	<b>6.7</b>	<b>8.9</b>	<b>11.1</b>	<b>12.6</b>	<b>13.4</b>	<b>15.2</b>	<b>16.6</b>	<b>19.2</b>	<b>21.8</b>	<b>24.0</b>	<b>26.2</b>	<b>27.3</b>	<b>42</b>	<b>4</b>
Taxes	1.6	2.2	2.8	3.4	3.3	3.7	4.2	5.2	5.5	6.0	6.6	6.8	32	4
<b>PAT</b>	<b>5.1</b>	<b>6.6</b>	<b>8.3</b>	<b>9.3</b>	<b>10.2</b>	<b>11.5</b>	<b>12.4</b>	<b>14.0</b>	<b>16.3</b>	<b>18.1</b>	<b>19.6</b>	<b>20.4</b>	<b>46</b>	<b>4</b>
<b>Balance Sheet (INR b)</b>														
Loans	1,981	2,012	2,071	2,126	2,107	2,208	2,286	2,391	2,480	2,601	2,728	2,899	21	6
Investments	596	630	611	697	687	692	727	709	725	760	762	831	17	9
Deposits	2,113	2,279	2,391	2,559	2,672	2,753	2,845	2,933	3,031	3,155	3,253	3,361	15	3
CASA Deposits	845	918	966	1,068	1,123	1,159	1,199	1,253	1,305	1,335	1,364	1,347	7	-1
of which Savings	525	571	643	711	799	833	866	888	952	894	864	841	-5	-3
Current	319	348	323	357	324	326	333	365	353	442	500	506	39	1
Borrowings	592	524	486	513	493	463	457	473	418	407	473	490	4	4
Total Assets	3,179	3,320	3,414	3,629	3,730	3,805	3,906	4,020	4,105	4,266	4,445	4,578	14	3
Risk Weighted Assets	2,617	2,617	2,655	2,729	2,724	2,756	2,811	2,951	3,031	3,115	3,225	3,370	14	5
<b>Asset Quality (INR b)</b>														
GNPA	51.0	45.3	36.5	57.9	61.9	62.5	57.8	55.2	59.3	55.7	57.1	58.3	6	2
NNPA	17.0	10.6	4.6	14.8	17.6	17.7	16.3	15.3	16.6	15.8	16.8	17.1	12	2
<b>Ratios</b>	FY21				FY22								Variation (bps)	
<b>Asset Quality (%)</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>YoY</b>	<b>QoQ</b>
GNPA	2.5	2.2	1.7	2.7	2.9	2.8	2.5	2.3	2.4	2.1	2.1	2.0	-29	-8
NNPA	0.9	0.5	0.2	0.7	0.8	0.8	0.7	0.6	0.7	0.6	0.6	0.6	-5	-3
PCR (Cal.)	66.6	76.7	87.3	74.5	71.6	71.6	71.7	72.3	72.0	71.5	70.6	70.6	-171	1
<b>Business Ratios (%)</b>														
Fees to Total Income	14.1	22.0	27.5	28.4	23.0	27.4	26.8	27.9	29.5	29.7	29.5	30.6	266	105
Cost to Core Income	47.6	45.6	43.6	43.4	45.3	44.1	44.4	44.6	44.4	44.8	44.8	45.4	81	54
Tax Rate	23.7	25.3	25.2	26.7	24.3	24.3	25.1	27.0	25.2	24.9	25.1	25.1	-189	-2
CASA (Reported)	40.0	40.3	40.4	41.7	42.1	42.1	42.2	42.7	43.2	42.4	42.0	40.0	-270	-200
Loan/Deposit	93.8	88.3	86.6	83.1	78.9	80.2	80.4	81.5	81.8	82.4	83.9	86.3	477	240
CAR	15.2	16.6	16.3	17.4	17.6	17.4	18.1	18.4	18.1	18.0	18.0	17.9	-56	-15
Tier I	14.5	15.8	15.6	16.8	16.9	16.7	16.4	16.8	16.6	16.4	16.5	16.4	-43	-10
<b>Profitability Ratios (%)</b>														
Yield on loans	11.9	12.0	11.7	11.8	11.8	11.7	11.4	11.3	11.4	11.5	11.8	12.0	73	27
Yield On Investments	6.7	6.2	6.0	5.9	5.8	5.8	5.8	5.8	5.9	6.1	6.4	6.5	73	14
Yield on funds	9.4	9.1	8.9	8.7	8.6	8.4	8.4	8.3	8.4	8.7	9.0	9.2	92	21
Cost of deposits	5.7	5.6	5.3	5.0	5.0	4.9	4.7	4.6	4.8	5.1	5.5	5.8	121	34
Cost of funds	5.1	4.9	4.7	4.5	4.5	4.4	4.3	4.1	4.1	4.4	4.7	4.9	84	20
Spreads	4.3	4.2	4.1	4.1	4.1	4.1	4.1	4.2	4.2	4.2	4.3	4.3	8	1
Margins	4.3	4.2	4.1	4.1	4.1	4.1	4.1	4.2	4.2	4.2	4.3	4.3	8	1
RoA	0.7	0.9	1.1	1.1	1.2	1.3	1.4	1.5	1.7	1.8	1.9	1.9	39	3
RoE	5.9	7.1	8.4	8.9	9.3	10.3	10.9	11.9	13.4	14.5	15.2	15.3	334	3

Source: MOFSL, Company



## Highlights from the management commentary

### Balance sheet and P&L related

- Credit growth is expected to moderate given the lagged deposit growth
- Financial stability risk in India is contained
- All retail segments are growing at a healthy pace and IIB will continue to focus on scaling up the key domains
- Deposits within the Affluent and NR segments surged 23% and 28%, respectively
- C/I ratio is likely to remain elevated at ~45% for the next few quarters that will eventually moderate to 41-42% as efficiency kicks in
- Focus remains on building a granular liability franchise and IIB has demonstrated a healthy progress in building the same
- Focus remains on building digital capabilities that will drive superior engagement and experience. Vehicle segment is likely to be entirely digitalized
- 74% of incremental deposits over FY20-23 were from Retail TD and CASA
- Concentration of top 20 depositors moderated to 16% from 23% in FY20
- The bank saw a moderation in SA balance as one large government account is moving out

### Asset Quality

- Slippages were led by higher recognition from the MFI business
- The bank has made additional SR provision of INR5b during 2HFY23
- Bulk of the restructured book is in the Vehicle and Secured retail segments
- SMA 1 and 2 book stands at 0.32% of loans
- Gross slippages is expected to be ~INR9-12b going ahead (1.7% of assets)
- Credit cost is likely to be ~110-130bp over FY23-26E.

### MFI business

- MFI business witnessed a bounce back and grew 30% QoQ
- The 30+ PAR book stands at 1.2% of total loans v/s 2.1% QoQ. Stress within the MFI business, including the restructuring book, is now behind
- Merchant advances stood at 11% of total MFI book. Merchant advances is likely to be a key focused segment over PC-6, which have a very high yield and fee income proposition
- New slippages increased INR590m QoQ with stress within the 30-90 DPD book coming off.

### Vehicle segment

- CV, CE and Equipment financing grew 30% QoQ while Cars, 3Q, UVs grew at 20% QoQ
- Gross slippages declined 40% QoQ while net slippages were down 76% QoQ
- Outlook remains positive with increasing utilization that will continue to drive the overall demand
- Market share in vehicle segment stood at 11.5% in terms of disbursement and 10.7% in terms of outstanding book

**Corporate**

- Growth in the corporate book is led by Mid and Small corporates that will continue to grow at a healthy pace
- Corporate growth was driven by sectors such as Gems & Jewelry, Power, and Petroleum
- IIB saw an account of INR1.75b being slipped into NPA from the restructuring book due to technical reason (not meeting the governance reason – customer is still paying)

**Guidance**

- Loan growth to be ~18-23% with Retail loan mix at 55%.
- Margins are likely to be in the range of 4.25-4.35% over FY23-26.
- Branch network is likely to expand to ~3,250-3,750 by FY26 v/s 2,606 in FY23.
- Mix of Retail deposits is likely to be ~45-50% by FY26 v/s 43% in FY23.
- The bank's endeavor is to deliver an RoA of ~1.9-2.2% over FY23-26.

**Key exhibits****Exhibit 2: GNPA in CFD moderated to 2.4%**

Segmental GNPA	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
CV	1.6	3.0	2.9	2.6	2.4	1.7	2.0	2.0	2.2	1.1
Utility	1.0	1.3	1.4	0.9	0.7	0.4	0.6	0.5	0.5	0.3
CE	0.8	1.2	1.5	1.2	1.4	1.1	1.6	1.4	1.9	0.9
3W	1.6	2.9	7.6	4.7	3.6	2.1	2.1	2.1	2.2	1.6
2W	3.1	6.7	9.8	9.2	9.3	9.2	7.9	8.0	7.5	7.2
Cars	0.7	1.3	1.8	1.2	1.0	0.7	0.8	0.6	0.6	0.5
LAP/HL/PL	0.4	2.8	2.8	2.6	2.2	3.1	1.7	1.6	1.6	1.4
Cards	0.2	1.6	4.4	5.1	4.6	3.3	2.3	2.2	2.0	2.4
BBG/LAP	0.9	3.4	3.3	3.9	3.4	3.1	3.5	3.5	3.6	3.3
MFI	1.5	1.5	1.7	3.0	3.2	2.5	3.4	2.9	3.8	4.3
<b>GNPA in Consumer Finance</b>	<b>1.2</b>	<b>2.4</b>	<b>2.9</b>	<b>3.0</b>	<b>2.8</b>	<b>2.3</b>	<b>2.5</b>	<b>2.4</b>	<b>2.6</b>	<b>2.4</b>

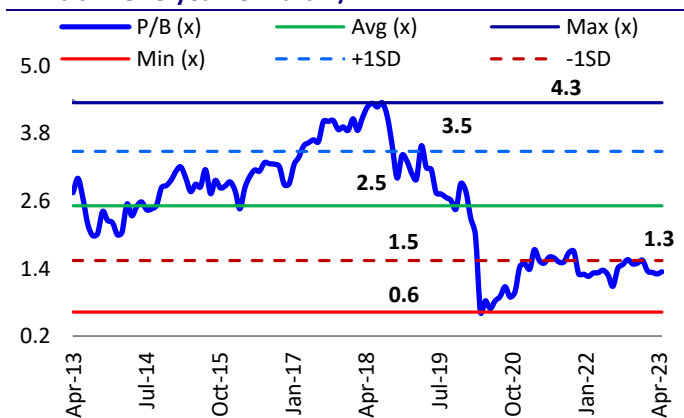
**Exhibit 3: Fees grew 27% YoY (8% QoQ) on a healthy pick up across investment banking, and third-party fees**

	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	YoY	QoQ
<b>Fee based income</b>	<b>15,080</b>	<b>12,140</b>	<b>15,060</b>	<b>15,190</b>	<b>16,440</b>	<b>17,860</b>	<b>18,720</b>	<b>19,410</b>	<b>20,870</b>	<b>27%</b>	<b>8%</b>
Trade fees (LC, BG, and remittances)	2,190	1,700	2,000	1,880	1,990	1,890	1,890	2,010	2,000	1%	0%
Processing fees and other charges	3,570	2,860	4,240	3,820	5,040	5,110	5,320	6,040	6,360	26%	5%
FX clients	2,690	1,920	2,210	2,280	2,340	2,200	2,680	2,490	2,690	15%	8%
Third-party distribution fees	3,990	3,110	3,600	3,880	4,700	5,070	5,590	6,190	7,140	52%	15%
Investment banking fees	640	670	680	940	280	250	170	200	310	11%	55%
General banking/other income	2,000	1,880	2,330	2,390	2,090	3,340	3,070	2,480	2,370	13%	-4%

## Valuation and view

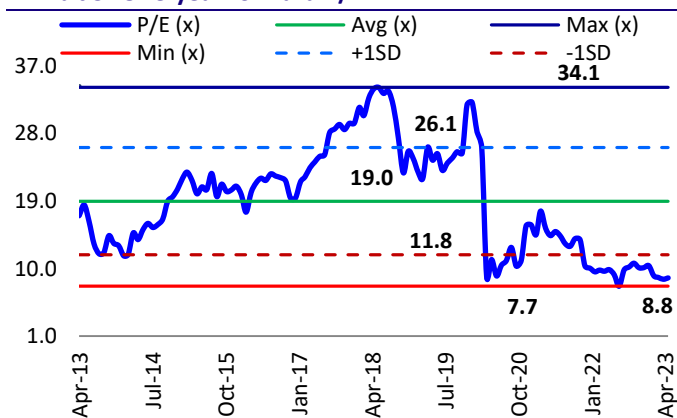
- Asset quality remains steady with GNPA/NNPA at 1.98%/0.59% as of Mar'23, aided by healthy reductions even as slippages inched up in 4QFY23. CE for the bank too remains healthy. Restructured book moderated to 0.8% from 1.25% in 3QFY23. A healthy PCR of 71% and contingent provisions provide further comfort. We estimate credit cost to moderate to 1.25%/1.15% in FY24E/FY25E.
- Loan growth is witnessing healthy traction across segments. Retail disbursements continue to remain strong and we expect the momentum to sustain. Deposit traction continues to remain healthy, with a focus on building a stable and granular liability franchise. IIB launched its PC-6 (CY23-26) strategy, wherein the focus is on fortifying liabilities, scaling up its key businesses, and investing in new growth engines. Management expects the loan book to grow at 18-23% with retail deposits mix at 45-50%. We estimate loan book to grow at 20% over FY23-25.
- **Margins to remain steady:** Lagged re-pricing of loans will likely drive yields, which along with a pick-up in loan growth will likely support margins going ahead.
- **BUY with a TP of INR1,450:** IIB's operating performance remains on track, led by steady NII growth and controlled provisions. Asset quality remains steady, even as slippages increased QoQ. Overall, the outlook for credit cost remains controlled. Management is guiding for continued momentum in loan growth with 18-23% improvement over FY23-26E. Healthy provisioning in the MFI portfolio and contingent provisioning buffer of 0.7% of loans will enable a steep decline in credit cost, thus driving earnings recovery. We estimate PAT to report 27% CAGR over FY23-25, leading to a 17.6% RoE in FY25. **We reiterate our BUY rating with an unchanged TP of INR1,450 (premised on 1.7x Sep'24E ABV).**

Exhibit 4: One-year forward P/B



Source: MOFSL, Company

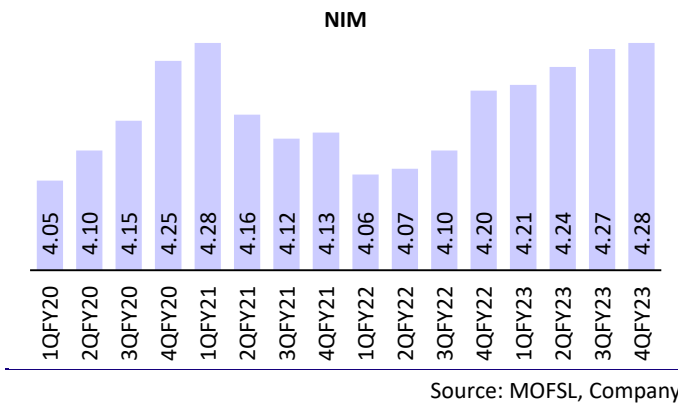
Exhibit 5: One-year forward P/E



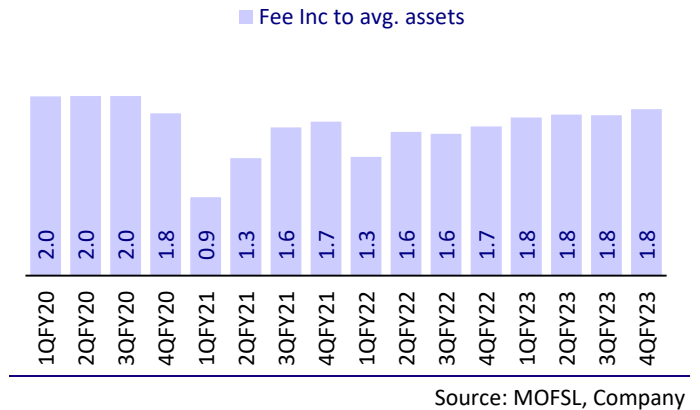
Source: MOFSL, Company

## Story in charts

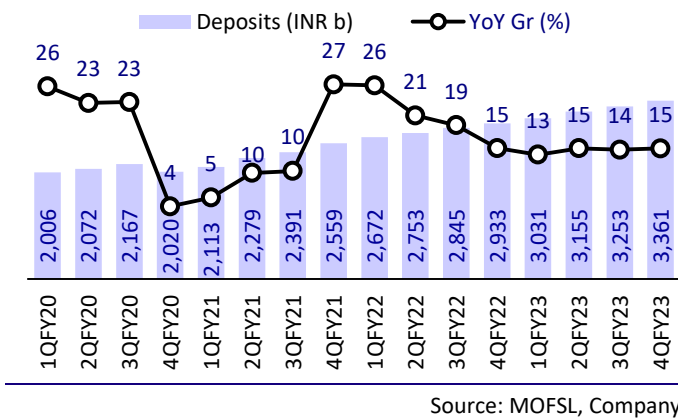
**Exhibit 6: NIM improved marginally by 1bp QoQ to 4.28%**



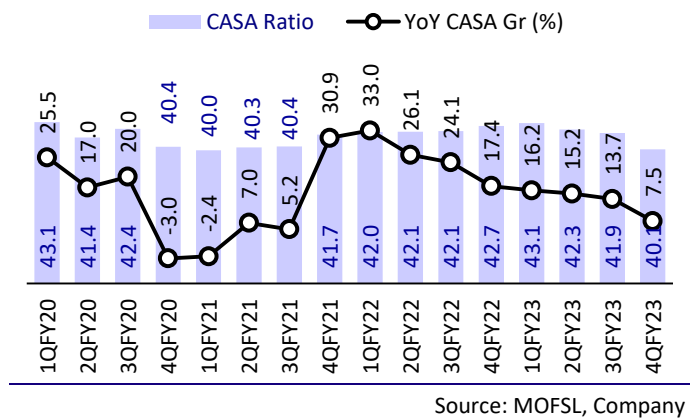
**Exhibit 7: Fee income to average assets was stable at 1.8%**



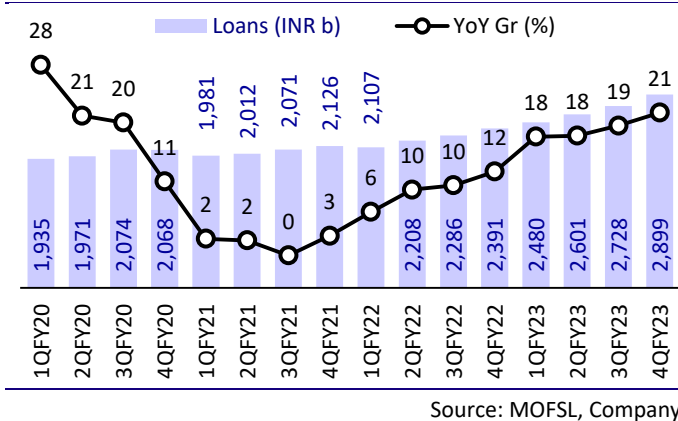
**Exhibit 8: Deposit growth healthy at 15% YoY (up 3.3% QoQ)**



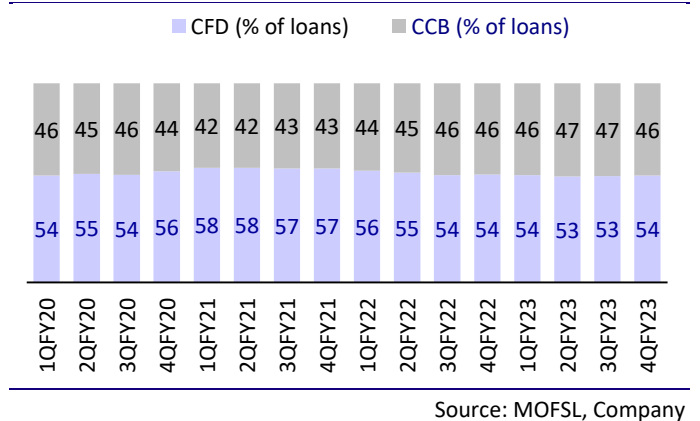
**Exhibit 9: CASA deposits grew 7% YoY; ratio at 40%**



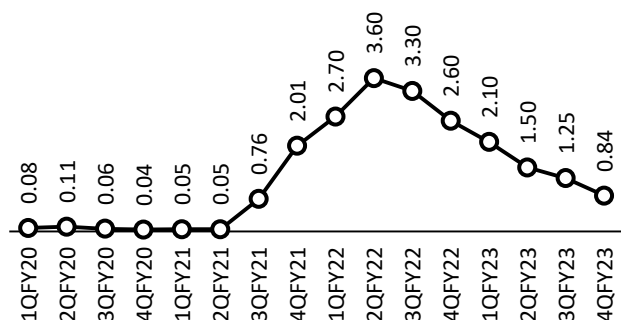
**Exhibit 10: Loan book grew ~21% YoY (up 6.3% QoQ)**



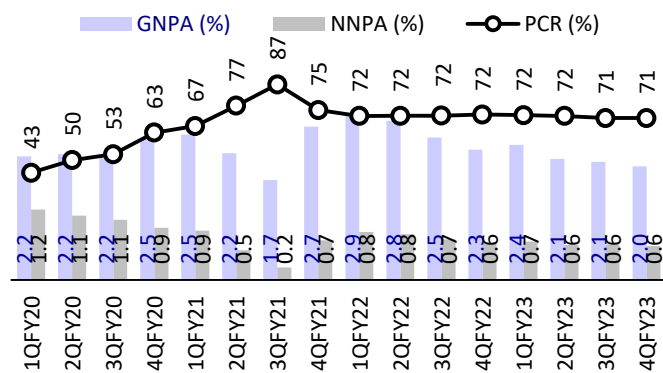
**Exhibit 11: CFD mix was at 54%, while CCB stood at 46%**



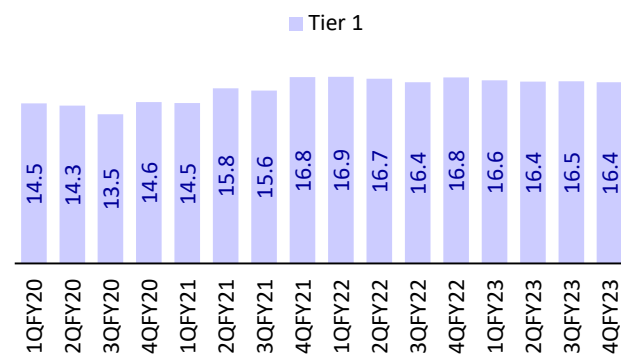


**Exhibit 12: Restructured book moderated to 0.84%**

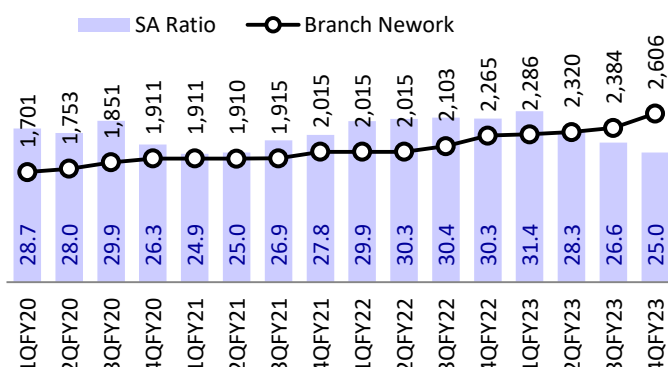
Source: MOFSL, Company

**Exhibit 13: GNPA/NNPA ratio decreased 8bp/3bp QoQ to 1.98%/0.59%; PCR was strong at 71%**

Source: MOFSL, Company

**Exhibit 14: Tier I capital remained healthy at 16.4%**

Source: MOFSL, Company

**Exhibit 15: Bank branch count stood at 2,606**

Source: MOFSL, Company

**Exhibit 16: DuPont Analysis – Return ratios to witness steady pick up**

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest Income	8.63	8.91	9.84	8.66	8.06	8.46	9.25	9.43
Interest Expense	4.89	5.37	5.72	4.62	4.14	4.37	5.00	4.99
<b>Net Interest Income</b>	<b>3.75</b>	<b>3.54</b>	<b>4.12</b>	<b>4.04</b>	<b>3.92</b>	<b>4.09</b>	<b>4.24</b>	<b>4.44</b>
Core Fee Income	2.19	2.22	2.19	1.50	1.77	1.83	1.88	1.93
Trading and others	0.18	0.05	0.19	0.44	0.16	0.07	0.07	0.07
<b>Non-Interest income</b>	<b>2.37</b>	<b>2.26</b>	<b>2.38</b>	<b>1.94</b>	<b>1.92</b>	<b>1.90</b>	<b>1.95</b>	<b>1.99</b>
<b>Total Income</b>	<b>6.12</b>	<b>5.80</b>	<b>6.50</b>	<b>5.98</b>	<b>5.84</b>	<b>5.99</b>	<b>6.19</b>	<b>6.44</b>
<b>Operating Expenses</b>	<b>2.79</b>	<b>2.56</b>	<b>2.82</b>	<b>2.44</b>	<b>2.43</b>	<b>2.64</b>	<b>2.73</b>	<b>2.81</b>
Employee cost	0.89	0.74	0.76	0.91	0.91	0.97	1.02	1.04
Others	1.90	1.82	2.06	1.53	1.53	1.67	1.70	1.77
<b>Operating Profit</b>	<b>3.33</b>	<b>3.24</b>	<b>3.68</b>	<b>3.54</b>	<b>3.41</b>	<b>3.35</b>	<b>3.47</b>	<b>3.63</b>
Core operating Profits	3.14	3.19	3.49	3.10	3.25	3.29	3.40	3.56
<b>Provisions</b>	<b>0.59</b>	<b>1.24</b>	<b>1.59</b>	<b>2.37</b>	<b>1.73</b>	<b>1.04</b>	<b>0.90</b>	<b>0.83</b>
NPA	0.45	1.09	1.24	1.51	1.08	1.04	0.81	0.76
Others	0.14	0.16	0.35	0.86	0.64	0.00	0.09	0.06
<b>PBT</b>	<b>2.74</b>	<b>1.99</b>	<b>2.09</b>	<b>1.17</b>	<b>1.68</b>	<b>2.31</b>	<b>2.57</b>	<b>2.80</b>
Tax	0.94	0.67	0.58	0.30	0.43	0.58	0.65	0.71
<b>RoA</b>	<b>1.80</b>	<b>1.32</b>	<b>1.51</b>	<b>0.87</b>	<b>1.26</b>	<b>1.73</b>	<b>1.92</b>	<b>2.10</b>
Leverage (x)	9.1	10.0	9.6	8.6	8.4	8.4	8.4	8.4
<b>RoE</b>	<b>16.5</b>	<b>13.2</b>	<b>14.5</b>	<b>7.6</b>	<b>10.6</b>	<b>14.5</b>	<b>16.1</b>	<b>17.6</b>

Source: MOFSL, Company



## Financials and valuations

### Income Statement

(INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest Income	172.8	222.6	287.8	290.0	308.2	363.7	456.8	542.9
Interest Expense	97.8	134.1	167.2	154.7	158.2	187.8	247.2	287.2
<b>Net Interest Income</b>	<b>75.0</b>	<b>88.5</b>	<b>120.6</b>	<b>135.3</b>	<b>150.0</b>	<b>175.9</b>	<b>209.6</b>	<b>255.7</b>
Growth (%)	23.7	18.0	36.3	12.2	10.9	17.3	19.1	22.0
Non-Interest Income	47.5	56.5	69.5	65.0	73.4	81.7	96.4	114.8
<b>Total Income</b>	<b>122.5</b>	<b>144.9</b>	<b>190.1</b>	<b>200.3</b>	<b>223.5</b>	<b>257.6</b>	<b>306.0</b>	<b>370.4</b>
Growth (%)	19.7	18.3	31.2	5.4	11.6	15.3	18.8	21.0
Operating Expenses	55.9	64.0	82.4	81.6	93.1	113.5	134.7	161.7
<b>Pre Provision Profits</b>	<b>66.6</b>	<b>80.9</b>	<b>107.7</b>	<b>118.7</b>	<b>130.3</b>	<b>144.2</b>	<b>171.3</b>	<b>208.7</b>
Growth (%)	22.1	21.5	33.2	10.2	9.8	10.6	18.8	21.8
<b>Core PPP</b>	<b>62.9</b>	<b>79.7</b>	<b>102.2</b>	<b>103.9</b>	<b>124.4</b>	<b>141.2</b>	<b>167.9</b>	<b>204.8</b>
Growth (%)	21.6	26.7	28.2	1.6	19.8	13.5	18.9	22.0
Provisions (exc. tax)	11.8	31.1	46.5	79.4	66.0	44.9	44.5	47.5
<b>PBT</b>	<b>54.8</b>	<b>49.8</b>	<b>61.2</b>	<b>39.3</b>	<b>64.3</b>	<b>99.3</b>	<b>126.8</b>	<b>161.2</b>
Tax	18.7	16.8	17.0	10.0	16.3	24.9	32.0	40.6
Tax Rate (%)	34.2	33.7	27.8	25.4	25.3	25.1	25.2	25.2
<b>PAT</b>	<b>36.1</b>	<b>33.0</b>	<b>44.2</b>	<b>29.3</b>	<b>48.0</b>	<b>74.4</b>	<b>94.9</b>	<b>120.6</b>
Growth (%)	25.7	-8.5	33.8	-33.7	64.0	54.9	27.5	27.1

### Balance Sheet

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	6.0	6.0	6.9	7.7	7.7	7.8	7.8	7.8
Reserves & Surplus	232.3	260.7	340.0	427.2	472.4	541.8	625.1	733.3
<b>Net Worth</b>	<b>238.3</b>	<b>266.7</b>	<b>347.0</b>	<b>435.0</b>	<b>480.1</b>	<b>549.6</b>	<b>632.8</b>	<b>741.0</b>
<b>Deposits</b>	<b>1,516.4</b>	<b>1,948.7</b>	<b>2,020.4</b>	<b>2,558.7</b>	<b>2,933.5</b>	<b>3,361.2</b>	<b>3,932.6</b>	<b>4,620.8</b>
Growth (%)	19.8	28.5	3.7	26.6	14.6	14.6	17.0	17.5
<b>of which CASA Deposits</b>	<b>667.3</b>	<b>840.7</b>	<b>815.7</b>	<b>1,067.9</b>	<b>1,253.3</b>	<b>1,347.3</b>	<b>1,636.0</b>	<b>1,940.7</b>
Growth (%)	43.1	26.0	-3.0	30.9	17.4	7.5	21.4	18.6
Borrowings	382.9	473.2	607.5	513.2	473.2	490.1	542.9	630.5
Other Liabilities & Prov.	78.6	89.4	95.6	122.1	132.7	177.0	194.7	214.2
<b>Total Liabilities</b>	<b>2,216.3</b>	<b>2,778.2</b>	<b>3,070.6</b>	<b>3,629.0</b>	<b>4,019.7</b>	<b>4,578.4</b>	<b>5,303.0</b>	<b>6,206.5</b>
Current Assets	132.2	147.8	160.0	566.1	685.8	567.8	559.4	551.4
<b>Investments</b>	<b>500.8</b>	<b>592.7</b>	<b>599.8</b>	<b>696.5</b>	<b>709.3</b>	<b>830.8</b>	<b>980.3</b>	<b>1,176.4</b>
Growth (%)	36.4	18.4	1.2	16.1	1.8	17.1	18.0	20.0
<b>Loans</b>	<b>1,449.5</b>	<b>1,863.9</b>	<b>2,067.8</b>	<b>2,126.0</b>	<b>2,390.5</b>	<b>2,899.2</b>	<b>3,479.1</b>	<b>4,174.9</b>
Growth (%)	28.2	28.6	10.9	2.8	12.4	21.3	20.0	20.0
Fixed Assets	13.4	17.1	18.2	18.8	19.3	20.8	22.5	24.2
<b>Total Assets</b>	<b>2,216.3</b>	<b>2,778.2</b>	<b>3,070.6</b>	<b>3,629.0</b>	<b>4,019.7</b>	<b>4,578.4</b>	<b>5,303.0</b>	<b>6,206.5</b>

### Asset Quality

GNPA	17.0	39.5	51.5	57.9	55.2	58.3	65.2	71.2
NNPA	7.5	22.5	18.9	14.8	15.3	17.1	19.0	20.0
GNPA Ratio	1.2	2.1	2.5	2.7	2.3	2.0	1.8	1.7
NNPA Ratio	0.5	1.2	0.9	0.7	0.6	0.6	0.5	0.5
Slippage Ratio	2.58	3.25	2.97	3.65	4.47	2.61	2.5	2.2
Credit Cost	0.91	1.88	2.37	3.79	2.92	1.70	1.3	1.2
PCR (Excl. Tech. write off)	56.3	43.0	63.3	74.5	72.3	70.6	70.8	71.9

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Yield and Cost Ratios (%)</b>								
<b>Avg. Yield-Earning Assets</b>	<b>9.2</b>	<b>9.5</b>	<b>10.6</b>	<b>9.3</b>	<b>8.6</b>	<b>9.0</b>	<b>9.8</b>	<b>9.9</b>
Avg. Yield on loans	10.6	11.0	12.2	11.5	11.1	11.3	12.0	11.9
Avg. Yield on Investments	6.6	7.3	7.1	6.8	7.2	6.0	5.8	6.2
<b>Avg. Cost-Int. Bear. Liab.</b>	<b>5.8</b>	<b>6.2</b>	<b>6.6</b>	<b>5.4</b>	<b>4.9</b>	<b>5.2</b>	<b>5.9</b>	<b>5.9</b>
Avg. Cost of Deposits	5.8	6.1	6.5	5.0	4.5	5.0	5.6	5.6
<b>Interest Spread</b>	<b>3.4</b>	<b>3.4</b>	<b>4.1</b>	<b>4.3</b>	<b>4.1</b>	<b>4.0</b>	<b>4.2</b>	<b>4.4</b>
<b>Net Interest Margin</b>	<b>4.2</b>	<b>4.0</b>	<b>4.6</b>	<b>4.6</b>	<b>4.4</b>	<b>4.7</b>	<b>4.9</b>	<b>4.9</b>

### Capitalisation Ratios (%)

CAR	15.0	14.2	15.0	17.4	18.4	17.9	17.3	16.4
Tier I	14.6	13.7	14.6	16.8	16.8	16.4	16.0	15.4
Tier II	0.5	0.5	0.5	0.6	1.6	1.5	1.2	1.0

### Business and Efficiency Ratios (%)

Loans/Deposit Ratio	95.6	95.7	102.3	83.1	81.5	86.3	88.5	90.3
CASA Ratio	44.0	43.1	40.4	41.7	42.7	40.1	41.6	42.0
Cost/Assets	2.5	2.3	2.7	2.2	2.3	2.5	2.5	2.6
Cost/Total Income	45.7	44.2	43.3	40.7	41.7	44.0	44.0	43.7
Cost/Core Income	47.1	44.5	44.6	44.0	42.8	44.5	44.5	44.1
Int. Expense/Int. Income	56.6	60.3	58.1	53.4	51.3	51.6	54.1	52.9
Fee Income/Total Income	35.8	38.2	33.7	25.0	30.2	30.6	30.4	29.9
Non Int. Inc./Total Income	38.8	39.0	36.6	32.5	32.9	31.7	31.5	31.0
Emp. Cost/Total Expense	31.8	28.9	26.8	37.3	37.3	36.8	37.5	36.9
Investment/Deposit Ratio	33.0	30.4	29.7	27.2	24.2	24.7	24.9	25.5

### Profitability Ratios and Valuations

RoE	16.5	13.2	14.5	7.6	10.6	14.5	16.1	17.6
RoA	1.8	1.3	1.5	0.9	1.3	1.7	1.9	2.1
RoRWA	2.1	1.5	1.7	1.1	1.6	2.2	2.3	2.4
Book Value (INR)	394	440	498	560	618	707	813	953
Growth (%)	15.3	11.7	13.2	12.5	10.3	14.4	15.1	17.1
<b>Price-BV (x)</b>	<b>2.8</b>	<b>2.5</b>	<b>2.2</b>	<b>2.0</b>	<b>1.8</b>	<b>1.6</b>	<b>1.4</b>	<b>1.2</b>
Adjusted BV (INR)	385	414	478	547	604	691	796	935
<b>Price-ABV (x)</b>	<b>2.9</b>	<b>2.7</b>	<b>2.3</b>	<b>2.0</b>	<b>1.8</b>	<b>1.6</b>	<b>1.4</b>	<b>1.2</b>
EPS (INR)	60.2	54.9	68.2	39.9	62.1	96.0	122.3	155.4
Growth (%)	25.2	-8.8	24.2	-41.4	55.4	54.7	27.4	27.1
<b>Price-Earnings (x)</b>	<b>18.3</b>	<b>20.1</b>	<b>16.2</b>	<b>27.6</b>	<b>17.8</b>	<b>11.5</b>	<b>9.0</b>	<b>7.1</b>

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

#### Disclosures

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